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Letter dated 16 December 2002 from the Chairman of the Security Council Committee established pursuant to resolution 1267 (1999) addressed to the President of the Security Council

In accordance with paragraph 10 of Security Council resolution 1390 (2002), I have the honour to transmit herewith the third report of the Monitoring Group established pursuant to Security Council resolution 1363 (2001) (see annex). I should be grateful if the present letter and its annex could be brought to the attention of the Council members and issued as a document of the Council.

(*Signed*) Alfonso **Valdivieso**
Chairman
Security Council Committee established pursuant to
resolution 1267 (1999)

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Annex

Letter dated 4 December 2002 from the Chairman of the Monitoring Group established pursuant to resolution 1363 (2001) and extended by resolution 1390 (2002) addressed to the Chairman of the Security Council Committee established pursuant to resolution 1267 (1999)

On behalf of the members of the Monitoring Group established pursuant to Security Council resolution 1363 (2001) and assigned, pursuant to resolution 1390 (2002), to monitor for a period of 12 months the implementation of the measures referred to in paragraph 2 of the latter resolution, I have the honour to attach the third report in accordance with paragraph 10 of resolution 1390 (2002) (see enclosure).

I remain,
Dear Mr. Chairman,

Yours sincerely,
(*Signed*) Michael **Chandler**
Chairman
Monitoring Group established pursuant to resolution 1363 (2001)
and extended by resolution 1390 (2002)

(*Signed*) Hasan **Abaza**
Expert member

(*Signed*) Victor **Comras**
Expert member

(*Signed*) Philippe **Graver**
Expert member

(*Signed*) Surendra **Shah**
Expert member

Enclosure

Third report of the Monitoring Group established pursuant to Security Council resolution 1363 (2001) and extended by resolution 1390 (2002)

Summary

The Monitoring Group established by Security Council resolution 1363 (2001) and extended by resolution 1390 (2002) is mandated with monitoring, reporting on and making recommendations concerning the measures that the Security Council decided States shall take against Osama bin Laden, al-Qa'idah, the Taliban, and associated individuals and entities. These measures consist of an assets freeze, a travel ban and an arms embargo. This is the third report prepared by the Group under this mandate.

Important progress has been made in identifying and breaking up al-Qa'idah cells and/or arresting al-Qa'idah associates by a number of countries during the period covered by this report. However, a large number of al-Qa'idah operatives, and others trained by al-Qa'idah, remain at large and should be designated by States as terrorists. Several Governments have issued and/or reaffirmed warnings concerning possible further al-Qa'idah attacks.

The bombing of a discotheque in Bali, Indonesia, by Jemaah Islamiyah — a group directly linked with al-Qa'idah — and the more recent attacks in Mombasa underscore the wide reach of al-Qa'idah and the existence of a dangerous coalition of extremist groups in South-East Asia and others of like mind in East Africa. Additional information concerning al-Qa'idah is coming to light on a daily basis from many parts of the world, and this is assisting in the break-up of cells and helping to thwart al-Qa'idah plans. The growing cooperation between Governments represents a significant step forward in the fight against al-Qa'idah.

Al-Qa'idah is an insidious mass movement, and no country or group of countries can handle the problem alone. Without broad information-sharing, police investigative cooperation and the application of international system-wide financial controls, al-Qa'idah will continue to be able to resist, recruit and rearm. International cooperation needs further improvement.

Many countries remain reluctant to submit names to the Security Council Committee established pursuant to resolution 1267 (1999) for designation, or to give the United Nations consolidated list sufficient attention in their domestic measures to counter al-Qa'idah and its associates. This approach has degraded the value of the list, which the group considers to be one of the key instruments supporting international cooperation in the implementation of resolution 1390 (2002).

The global effort to combat the financing of terrorism continues to face many challenges, stemming from the complexities of international financial transactions and the uneven application of regulatory and control measures. Many countries are imposing strict new anti-terrorism financing regulations on their domestic banking, as well as on correspondent banking and "offshore financial centres". But serious problems remain, and al-Qa'idah is still able to receive money. Occasionally transactions may still be routed through the international banking system. Efforts are

under way to identify countries and institutions that need resources in order to impose measures, as well as to identify those that continue to lack the will to do so. Al-Qa'idah has also adjusted its tactics to rely more heavily on local sources of funding.

The funding of al-Qa'idah and associated terrorist groups through charitable and other non-governmental organizations continues to be a major problem. Charities go unregulated in many countries. Several charities are now under investigation, and some have had their assets frozen. Financial regulatory authorities have also focused greater attention on informal transfer mechanisms, such as *hawala*. Such remittance systems have proved particularly useful to al-Qa'idah.

Al-Qa'idah also continues to be able to move about in its various areas of operation, e.g., Europe and South-East Asia, or between Afghanistan and Pakistan. This is because a great many al-Qa'idah operatives remain unidentified or, if identified, information on them has not been communicated sufficiently to other jurisdictions or provided to the Committee for inclusion on the list. The borders in some of these areas are porous and/or difficult to monitor. In some cases, inadequate measures are in place to restrict such travel.

The application of the arms embargo continues to present a major challenge. Recent events have demonstrated that al-Qa'idah continues to have access to substantial quantities of arms and explosives. While a number of seizures have been recorded, the weapons confiscated represent only the tip of the iceberg. The Monitoring Group remains highly preoccupied by the risk of al-Qa'idah acquiring weapons of mass destruction or a "dirty" bomb.

Despite significant successes to date in the efforts to counter al-Qa'idah and its associates, the fight is far from over. Much work still needs to be done and can be achieved only through enhanced international cooperation. Security Council resolution 1390 (2002) has proved to be one of the key tools in realizing the level of cooperation required, but more could be achieved by strengthening the resolution and by requesting States to be more proactive in the fight against al-Qa'idah and its associates.

I. Introduction

1. The Security Council, on 16 January 2002, acting under Chapter VII of the Charter of the United Nations, adopted resolution 1390 (2002), imposing financial and economic sanctions, a travel ban and an arms embargo on Osama bin Laden, members of al-Qa'idah, the Taliban and their associates and associated entities as referred to in the list established and maintained by the Security Council Committee established pursuant to resolution 1267 (1999).

2. By paragraph 9 of resolution 1390 (2002), the Security Council requested that the Secretary-General assign the Monitoring Group established pursuant to resolution 1363 (2001) to monitor the implementation by Member States of the measures that it decided they should take, set out in paragraph 2 of resolution 1390 (2002). The Group, as requested by the Council, has already submitted two reports to the Committee, on 29 April (S/2002/541) and on 22 August (S/2002/1050) 2002.

3. The Group, in continuing its practice of visiting States and learning first-hand the measures that they have taken to implement the resolution, has met with government officials in Austria, France, Germany, the Islamic Republic of Iran, Italy, Jordan, Luxembourg, Nepal, Pakistan, Singapore, Switzerland and the United States of America. The Group also met with officials of the Schengen Information System command centre in Strasbourg. In addition, the Group visited a number of international border entry points and talked with border control officials. This included an especially useful tour of the Iran/Afghanistan border. The Group also had an observer at the Kimberley Process meeting at Interlaken, on 4 and 5 November 2002. The Group continues also to draw on public data and information and the expertise of the private sector. The Group would like to place on record its appreciation to all concerned for their frank, open and comprehensive briefings.

4. The period covered by the present report, the third one to be presented by the Group, has seen a considerable degree of success in the fight against al-Qa'idah, with a number of arrests of al-Qa'idah operatives and the break-up or disruption of cells in a number of countries. However, al-Qa'idah and groups closely associated with it remain active (see annex I) and continue to pose a significant threat, globally, to peace and security.

5. The bombing of a holiday resort discotheque on the island of Bali, in Indonesia (12 October 2002), leaving more than 190 dead and hundreds wounded, has been attributed to Jemaah Islamiyah, which is linked to al-Qa'idah. In addition al-Qa'idah has been implicated in the attack on the French registered supertanker *Limburg*, off the coast of Yemen, an attack similar to that executed against the *USS Cole* (October 2000), and in shooting incidents against United States service personnel training in Kuwait. The Moscow theatre hostage-taking (24 October 2002), while not established as a direct effort of al-Qa'idah, was lauded on a recently released audio tape, which has been identified as most probably coming from Osama bin Laden. Also, initial indications concerning responsibility for the car bombing of a hotel and the attempt to shoot down a commercial airliner at Mombasa, Kenya, bear the hallmark of al-Qa'idah.

6. A number of Governments have also renewed or issued new warnings concerning the threats posed by al-Qa'idah and associated entities. This includes, but is not limited to, several references to possible attacks against shipping, civil and commercial infrastructure, diplomatic missions and centres of tourism.

II. The al-Qa'idah network

7. The Bali bombing has confirmed the extent of the relationship between al-Qa'idah and the loose coalition of extremist groups in South-East Asia. A concerted effort by the Governments of Malaysia, the Philippines and Singapore, dating back to the autumn of 2001, led to the identification of a number of cells in the area linked to Jemaah Islamiyah, which had been planning terrorist attacks. More and more information is coming to light. Much of this information was obtained as a result of the successful break-up by the Singaporean authorities of a major operational cell. In addition, the recent arrests in Indonesia, arising from the investigation by the authorities there into the Bali incident, have provided further evidence of the dangers posed by al-Qa'idah and Jemaah Islamiyah in the region. The cooperation between these Governments represents a major step forward in the fight against al-Qa'idah. There are signs that law enforcement authorities around the world are increasingly successful in identifying and detaining members of al-Qa'idah and their associates. Some of the key suspects recently arrested are Ramzi bin al-Shibh, Abd al-Rahim al-Nashiri and Imam Samudra.

8. The Mombasa attacks have been attributed by many States to al-Qa'idah. However, even if some may not perceive the individuals responsible to be a component part of al-Qa'idah, those involved have clearly drawn on the pronouncements of Osama bin Laden for their inspiration. Thus, by default, those responsible for these latest outrages in Kenya fall into the category of associates and associated entities as defined in resolution 1390 (2002), as do those connected with the Bali bombings. Together these incidents appear to indicate a shift in tactics by the al-Qa'idah network. Soft targets, preferably with maximum casualties, would now appear to be the order of the day. The success of the al-Qa'idah network's loosely affiliated cell system has again been demonstrated; a reminder, if one should be needed, of how this global scourge is manifesting itself. But the most important point that arises from these horrendous events is the need for even greater and more determined action, collectively, by all States of the United Nations to eradicate al-Qa'idah and all its manifestations.

9. One aspect of the al-Qa'idah phenomenon that is a major area of concern is the number of operatives that were trained in Afghanistan during the years that the training camps existed. These operatives have returned to their countries of origin or gone to others. They have been likened to time bombs — when the time comes they will "explode". By this the Group means that, following extensive planning and preparation of identified targets, they then act on receipt of the appropriate signal or the presentation of the appropriate opportunity. Most of these operatives remain at large. The authorities in the States where they are in waiting possibly know some of them. Many others are "dormant", and their identities and whereabouts are unknown.

10. One of the most recent developments to come to light is the apparent activation of new, albeit simple, training camps in eastern Afghanistan. Particularly disturbing about this trend is the fact that new volunteers are making their way to these camps, swelling the numbers of would-be al-Qa'idah activists and the longer-term capabilities of the network.

III. General observations

11. The representatives of all of the Governments with whom the Group met reiterated their Governments' commitment to discharging their responsibilities as Members of the United Nations in the fight against terrorism, and in particular in complying with resolution 1390 (2002). At the time of writing, only 79 States have submitted their 90-day reports, as requested in paragraph 6 of the resolution. The Group has not been able to assess the level of compliance of the States that have not responded. The Committee may wish to address this matter, as it is a fundamental aspect of compliance.

12. The fight against the al-Qa'idah network is proving to be a difficult and drawn-out undertaking. Al-Qa'idah is more than a terrorist organization that can be identified and eliminated. It is an insidious mass movement that must be dealt with using a broad range of tactics. This includes intelligence and information-gathering, military action, financial countermeasures, police investigation, travel restrictions and an arms embargo. It requires constant security consciousness and vigilance. Perhaps most importantly, it requires concrete international cooperation. No country or group of countries can handle the problem alone. Without broad information-sharing, police investigative cooperation and the application of international system-wide financial controls, al-Qa'idah will continue to be able to resist, recruit and rearm, and will continue to pose a danger to international peace and security in every region of the world. It is up to each country to take the measures necessary within its borders to deal with al-Qa'idah and its support mechanisms. Countries that fail in this endeavour undermine the efforts made elsewhere.

13. One of the most significant failings observed by the Group to date is the apparent reluctance of many countries, for various reasons, to submit the names of persons or entities they have identified as al-Qa'idah members, associates or associated entities. This includes all those individuals who, over time, have returned from training camps in Afghanistan and are known to the authorities. These individuals should be regarded as terrorists and treated accordingly. This failing has seriously degraded the value of the United Nations consolidated list, one of the key instruments supporting international cooperation. The list, in conjunction with resolution 1390 (2002), provides the only internationally recognized mechanism that assures that common steps are taken to deal with those designated.

IV. The United Nations consolidated list

14. The Committee established pursuant to resolution 1267 (1999) has made progress in updating and reformulating the list of individuals and entities associated with Osama bin Laden, al-Qa'idah and the Taliban. The list is critical to the implementation of the measures set forth in paragraph 2 of resolution 1390 (2002). During the reporting period the Committee has added 16 individuals and 22 entities to the list. It has also de-listed three individuals and three entities. Progress has also been made in conforming the names to actual cultural usage.

15. Early in the period, the Committee requested States to provide additional identifying information with regard to the names already on the list. To date 11 States have responded with some useful information. The Group notes that this is a continuing process and that additional information is still needed concerning many

of the names on the list. States should be encouraged to provide this additional information as soon as possible. Nevertheless, the Group recommends that the Committee now begin to include and publish in the list the reformulated names and the information it has so far received. Additional information should be added as soon as possible after it has been received.

16. While additional names have recently been added to the list, it remains incomplete. In the last report the Group highlighted five key individuals who were not included on the list; Gulbuddin Hekmatyar, Ramzi bin al-Shibh, Khalid Shaikh Mohammed, Suleiman Abu Gaith and Said Bahaji. Since then only two, Said Bahaji and Ramzi bin al-Shibh have been designated. During the same period the number of persons alleged to be linked to al-Qa'idah who have been publicly identified but whose names have not been presented to the Committee is now in the order of 100 (see annex II). In addition, four of the "most wanted terrorists" — Imad Fayez Mugniyah, Ahmad Ibrahim al-Mughassil, Ali Saed bin al-Hoorie and Ibrahim Salih Mohammed al-Yacoub — appearing on the United States Federal Bureau of Investigation web page have also not been included on the list.

17. Only a few countries have provided the names of the persons or entities they have identified as associated with Osama bin Laden and al-Qa'idah. Many countries have refrained completely from providing names of such persons or entities. Several reasons have been cited for this lacuna. Several Governments questioned the validity of placing persons or entities on the list without judicial findings of culpability. Several indicated that they lack established procedures for determining which names of individuals or entities should be communicated to the Committee. Some countries were barred by rules of confidentiality covering ongoing criminal proceedings or investigations. Some indicated a reticence to provide the names of their own nationals. Some States were concerned that such actions would require them to freeze the assets of the persons named, with dire consequences for their families.

18. In sharp contrast to the foregoing observations was the massive support, from no less than 50 States, for the listing of Jemaah Islamiyah. It can be hoped that this concerted action is a turning point leading to the more active involvement of States with regard to future listings regarding al-Qa'idah and its associates.

19. The Group has sought, through discussions with the Committee and with States, to clarify the role and the status of the list. Several government officials with whom the Group met indicated differing views about the nature and effectiveness of the list. As indicated previously, a number of countries view the list as the document defining specific persons and entities that are subject to the measures imposed by resolution 1390 (2002). Some have questioned the way in which the list is composed and what it represents. It is unclear whether inclusion in the list indicates ipso facto that the persons named should be considered terrorists, or whether the list should be viewed as a preventive measure concerning persons who might be terrorists. Several countries have also questioned the methodology used to determine who should appear on the list. These questions carry with them important implications concerning the manner in which States fulfil their responsibilities to freeze assets or restrict the movement of persons pursuant to resolution 1390 (2002).

20. The Committee, on 7 November 2002, adopted new guidelines regarding the conduct of its work (see annex III). These guidelines provide a clearer indication of the procedures for the listing and de-listing of individuals and entities on the list. It is also considering guidelines to handle requests for exemptions, on humanitarian

grounds, from the measures imposed under paragraphs 2 (a) and 2 (b) of resolution 1390 (2002). The Group hopes that this will encourage and assist States in providing the Committee with information relevant to maintaining and updating the list. These procedures should also serve to alleviate concerns that some Member countries have expressed about the need to consider humanitarian factors in determining whether to provide the Committee with information relating to the possible listing of individuals or entities. The Group is aware that the Committee is seized of the matter of humanitarian exceptions.

21. The new guidelines indicate that proposed additions to the list should include, to the extent possible, a narrative description of the information that forms the basis and/or justification for a listing. The Group believes that it would be very useful if countries would indicate, at the time of listing, whether any warrants for arrest have been issued regarding the persons named. The Committee should continue to solicit such information from Member countries regarding those persons already on the list.[1] The Committee should also consider providing such information, along with other information provided to it at the time of listing, to all countries, as this may assist them in better carrying out their obligations under paragraph 2 of resolution 1390 (2002).

22. The Group has observed that in many cases the list is not reaching quickly enough the officials who need the information contained therein so that they can effectively use it for the intended purpose. The Group again emphasizes the importance of ensuring that the list is adequately communicated to States and quickly and widely distributed within States. The Group has found in several instances that countries lacked up-to-date information regarding the list or were using lists that were out of date. The Group recommends that each updated or amended list be communicated directly, immediately and simultaneously, as soon as the amendments are approved by the Committee.

V. Freezing of financial and economic assets

23. The second report of the Group provided a basic description of the financial support structure of al-Qa'idah and the measures the international community had adopted to deal with it. The present report provides an update and further elucidation regarding these measures. It also provides an indication of new developments that have come about, or become known, since the last report. This includes new strategies that al-Qa'idah and its associated entities may be utilizing to try to circumvent these international controls.

24. The global effort to combat the financing of terrorism continues to face many challenges, stemming from the complexities of international financial transactions and the uneven application of regulatory and control measures. While many countries, and their financial institutions, are adhering strictly to new international regulations and guidelines for combating money-laundering and the financing of terrorism, which is having a positive effect, many jurisdictions and financial institutions are still lagging behind.

25. The failure of States to make full use of the list has further complicated international efforts to locate, freeze and block economic and financial assets that are used to support the activities of al-Qa'idah members and their associates. The names of many individuals and certain entities that have been identified as

associated directly or indirectly with al-Qa'idah have not been submitted for inclusion on the list. Several countries have indicated that they are not able to block the assets of such persons or groups without a judicial finding. Obtaining such a finding may involve complicated investigative and evidentiary procedures. Some countries have also cited difficulty in retaining blocking orders on groups included on the list without sufficient indication that the assets are in some way directly linked to terrorism or other illegal activities. The Group notes that such de-blocking may be inconsistent with the obligations imposed by resolution 1390 (2002) and believes that Governments acting to de-block such assets should first raise this issue with the Committee.

26. The Group notes that since its last report, a number of States and regional groupings have taken new steps to further invigorate their efforts against the financing of terrorism. These measures are directly relevant to impeding the flow of funds that support al-Qa'idah and associated individuals and entities. This has included increased vigilance and more extensive use of suspicious transaction reports, as well as the introduction of new anti-money-laundering measures in several States earlier viewed as deficient. The Group of 7 reported in September 2002 that more than 160 countries and jurisdictions had taken new, concrete action to combat the financing of terrorism. The International Monetary Fund (IMF) and the World Bank/International Bank for Reconstruction and Development (IBRD) have also significantly intensified their involvement relating to combating money-laundering and the financing of terrorism. Since February 2002, IMF has included an examination of countries' procedures to combat money-laundering and the financing of terrorism as part of the Financial Sector Assessment Programmes and the examination of offshore financial centres' legal, regulatory and supervisory systems. Also of interest is the announcement by the United States of America of a new reward programme offering up to $5 million for information that helps law enforcement officials locate and stop the flow of money to terrorists and the networks that support them.

27. New efforts are also under way in many banking capitals and centres to expand the application of stricter "know your customer" rules. This has included many banks in so-called offshore financial centres.[2] Significant progress has reportedly been achieved in Cyprus, Gibraltar, Hong Kong (China), Panama and Singapore. Other countries and jurisdictions now cooperating with the IMF assessment processes include Anguilla, Barbados, Bermuda, the British Virgin Islands, the Cayman Islands, the Cook Islands, Guernsey, the Isle of Man, Jersey, Labuan (Malaysia), Liechtenstein, Malta, the Marshall Islands, Mauritius, Monaco, the Netherlands Antilles, Samoa, Seychelles, the Bahamas, the Turks and Caicos Islands and Vanuatu. Antigua and Barbuda, Nauru, Niue, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines have been encouraged also to permit such IMF assessments as soon as possible.[3]

28. The Wolfsberg Group of Banks announced on 5 November 2002 that it intended to apply stricter "know your customer" guidelines to its own banking practices and to its handling of correspondent banking relationships. These new rules will bar business with "shell" banks and establish stringent new standards of due diligence based on evaluated risk assessments and transaction profiling. Such profiling would include criteria related to previous activities and relationships, domicile, ownership and management structure, and business portfolio (see annex IV).

29. The Wolfsberg Group has also proposed the development and regulatory endorsement of an international registry of financial institutions. Upon registering, financial institutions would submit information relevant to due diligence requirements, such as details of ownership, capital structure and key relationships. Such a step is to be strongly encouraged.

30. New emphasis is also being placed by several major banking countries on Financial Action Task Force (FATF) special recommendation VII (see annex IV), which relates to wire transfers. FATF has issued a new proposal for an interpretive note to ensure that basic information identifying the originator of fund transfers is obtained and preserved by banks and intermediaries, and that such information is made rapidly available to law enforcement and other appropriate authorities for the purpose of investigating, prosecuting and tracing the assets of terrorists or other criminals. The Group would like to see the FATF proposal for an interpretive note quickly adopted and implemented by all countries and banking jurisdictions.

31. The settlement of international transactions is usually handled through correspondent banking relationships or large-value message and payment systems, such as the SWIFT, Fedwire or CHIPS systems in the United States of America. Such international clearance centres are critical to processing international banking transactions and are rich with payment information. The United States has begun to apply new monitoring techniques to spot and verify suspicious transactions. The Group recommends the adoption of similar mechanisms by other countries.

32. The Group has also taken note of new measures to strengthen regional and international cooperation in cutting off terrorist funding. This has included new measures being taken, or pledged, on the part of Governments and financial institutions in Asia, including South-East Asia, and the Middle East. In September 2002, the Finance Ministers of the Asia-Pacific Economic Cooperation Economies announced a joint Action Plan on Combating the Financing of Terrorism, directed at strengthening regional cooperation and information-sharing regarding terrorist assets and financing. Similarly, the Association of South-East Asian Nations countries have pledged to work closely together to combat the financing of terrorism. A special conference on combating the financing of terrorism will be held in Bali this December to finalize new cooperative arrangements.

33. Although banks and financial institutions around the world are applying many of these new steps, serious gaps remain. FATF has identified several countries that continue not to cooperate with its recommended measures dealing with money-laundering and the financing of terrorism. The FATF non-cooperating country list includes the Cook Islands, Egypt, Grenada, Guatemala, Indonesia, Myanmar, Nauru, Nigeria, the Philippines, Saint Vincent and the Grenadines, and Ukraine.[4] In addition, several countries that have adopted FATF and IBRD guidelines continue to lack the structures, resources or political will to adequately apply and enforce them. This is also the case for a number of countries and banks in Africa, Central, South and South-East Asia and the Middle East.[5] Al-Qa'idah and its associates continue to make use of banking transactions in such areas. These transactions are often routed through a combination of bank transfers and informal transfer mechanisms (such as *hawala*) and through multiple intermediaries in order to further obscure their origin and final destinations.[6]

34. FATF and some of its member countries are now undertaking a major new initiative to identify those countries that lack appropriate measures or are failing to

combat the financing of terrorism. It is to be hoped that this will lead to steps being taken to encourage cooperation from such countries. This will also include offers of technical and other assistance. A report on the FATF findings is expected shortly. A number of organizations and programmes are now available to countries wishing to avail themselves of such assistance to strengthen their own national financial institution monitoring systems. This includes programmes offered under the auspices of IMF, IBRD, the Office on Drugs and Crime (formerly the Office for Drug Control and Crime Prevention) and other international and regional organizations. Several programmes are also offered by member States on a bilateral basis.

35. The funding of al-Qa'idah and associated terrorist groups through charitable and other non-governmental organizations continues to pose one of the greatest challenges to the financial war on terrorism. The line between fund-raising activities for legitimate purposes and those related to terrorist recruitment, maintenance, indoctrination and training is often blurred. In some cases the charities and non-governmental organizations have been only "shell", or front, organizations intended to funnel money to al-Qa'idah or its associated groups or cells.[7] However, in many cases, otherwise legitimate charities have been infiltrated or used by al-Qa'idah and its associates to obtain, transfer or divert money to support their activities.

36. The capture of al-Qa'idah operatives and the dismantling of the organization's camps and bases in Afghanistan has provided substantial information on al-Qa'idah financial operations and the emphasis it placed on fund-raising through charities and other non-governmental organizations. It also used these organizations for logistic support, as a cover for employment, false documentation, travel facilitation and training. This information has focused a greater international effort on closely monitoring and regulating the potential use of charities and other associations for these purposes. Several charities and organizations have been investigated for possible al-Qa'idah ties, and freezing orders have been issued in several instances.[8] International standards regulating charities, non-governmental organizations and associations vary significantly between jurisdictions and between different legal systems. Charities in many countries have gone largely unregulated, except with regard to questions related to possible tax exemption status. In many cases charities come under official scrutiny only if accusations of fraud or embezzlement arise.

37. A special FATF group has just issued a paper on international best practices to help address these issues (see annex IV). The FATF paper recommends that charities cooperate with regulatory authorities by making their operations, budget, and programme activities as transparent as possible. It also recommends that charities and non-governmental organizations be required to maintain and use registered bank accounts to store and transfer their funds. This would better ensure that the transfer of their funds will at least be regulated through the formal banking system. Such transactions would then be subject to established suspicious transaction report and "know your customer" procedures. The paper also recommends formal selection and identification of directors and yearly independent audits of the organizations' financial activities.

38. Several of the charities and non-governmental organizations implicated in channelling funds, knowingly or unwittingly, to al-Qa'idah or associated groups or entities are based in the Middle East, Africa, South Asia and South-East Asia. In recognition of the religious and cultural importance given to acts of anonymous

charity, the relevant Governments were reluctant to tightly oversee these charities. This has particularly been the case regarding charitable programmes operating outside their jurisdiction. Several of these countries have now pledged to more closely regulate and scrutinize the activities of these charities. The Group recommends that all States establish a charities commission or similar regulatory body.

39. The Government of Saudi Arabia issued new regulations earlier this year tightening up charity oversight. It has required all charities based in Saudi Arabia since 1999 to be registered. The new requirements provide for the creation of a special oversight commission. They also require Saudi charities and other non-governmental organizations to report to the Saudi Government all activities that extend beyond Saudi Arabia. Such activities are to be closely monitored. The new regulations also encourage donations to be made only through established Saudi groups. Unfortunately, some of these approved groups have, in the past, been alleged to have provided funds, directly or indirectly, to al-Qa'idah operatives.[9] On 23 October 2002, the Saudi Government hosted a special forum on Islamic charities to discuss new regulatory measures as well as new coordinated investment and programme strategies.

40. The Government of Pakistan has also initiated several new measures to regulate charities and non-governmental organizations, including madrasas. The Pakistan Government has pledged to reform the madrasa system. The Group was informed that the new laws will provide for changes in curriculum, registration and the monitoring of finances.

41. The fight against the financing of terrorism has also benefited significantly from increased intelligence, including information obtained from captured al-Qa'idah operatives. Government sources have told the Group that these intelligence and information-gathering efforts are starting to pay off. Considerable information on al-Qa'idah operations and financing, and the operations and financing of related organizations and entities, has been obtained and analysed by intelligence services in several countries. This includes information gleaned from forensic banking investigations, from suspicious transaction reports, from seized computers and documents and from information obtained from captured al-Qa'idah associates or operatives. Some of this information has been disclosed publicly, including information obtained from Omar al-Faruq, a key financial operative in South-East Asia who was captured recently in the Philippines.

42. The information gathered has proved very useful in tracking down and unmasking al-Qa'idah and related terrorist cells in the United States of America, Europe, Pakistan, North Africa and South-East Asia, leading to a number of arrests. It has also hampered the transfer of terrorism-related funds. However, few of the bank accounts identified contained any significant amounts, and few additional assets of any value have been frozen. Nevertheless, this approach has had a major impact on the financing of terrorism and has forced al-Qa'idah to develop new strategies to hide the identity of its resources and to store and transfer funds.

43. As al-Qa'idah cells have moved towards greater decentralization, their leaders have sought also to disseminate their previously established financial networks in favour of local or regionally based systems. They are believed to have sequestered at least some of their assets in gold and other precious commodities. They may also be using gold and precious commodities as a medium of transfer. Such transactions

have been reported in the press and have been given credence in official statements by American and other government officials. However, few details have been given, and the Group has been unable to obtain any further information concerning such transactions. These assets are reportedly being stored for future requirements, such as the possible re-establishment of training and recruitment centres, if and when appropriate new "safe areas" become available to them. Reports indicate that such centres are being considered in some remote areas of South-East Asia. Other assets are believed to remain in the hands of unidentified al-Qa'idah sympathizers and supporters in Afghanistan, Pakistan, the Middle East and Central and South-East Asia. There are also suggestions that some major financial donors and supporters may have broken off their ties, at least temporarily, with al-Qa'idah to avoid detection.

44. Information obtained through investigations of the attacks of 11 September 2001, from captured al-Qa'idah members and from seized records and documents, showed clearly that al-Qa'idah traditionally relied on an international network of financing that had originally been established to support the "holy war", or jihad, that was fought against the Soviet occupation of Afghanistan. With the crackdown taking place against this network, through increased pressure on Governments and banking institutions around the world to block such transactions, al-Qa'idah, and its associated entities, have increasingly turned to local sources of funding. Local affiliated groups and al-Qa'idah cells have become increasingly reliant on their own funding, maintenance and support. Many of the extremist fundamentalist and nationalist groups associated with al-Qa'idah were already handling their finances in this manner. They rely on local community solicitations, tap local charities (both overtly and covertly), conduct small business operations and often engage in street or petty crime. In addition, local groups have on occasion been asked to raise funds for al-Qa'idah by offering training courses for payment. Such courses included indoctrination and training in camps set up by al-Qa'idah for this purpose, including former camps operated in Mindanao (Philippines) and Poso, Sulawesi (Indonesia).

45. While al-Qa'idah's principal financial support network may appear somewhat dormant, it still remains operational. Al-Qa'idah appears to still have access to substantial funding from its previously established investments, non-governmental organization and charitable support network, and deep-pocket supporters. Al-Qa'idah funds are still being generated to support major operations, such as the Bali bombing[10] and the plot to blow up embassies in Singapore. In addition, the traditional network of non-governmental organizations, charities and private donors that supported extremist institutions and proselytizing activities in support of al-Qa'idah and its objectives in the past remains active. While these latter funds are ostensibly for (and do go largely to) legitimate religious, humanitarian, social and educational purposes, they are also being used to fund radical extremist movements that support al-Qa'idah recruitment and indoctrination efforts.

46. Intelligence information has also provided a clearer picture of al-Qa'idah's involvement in developing or aligning itself with other radical extremist groups in South-East Asia, including Jemaah Islamiyah, Abu Sayyaf and the Moro Islamic Liberation Front. This has included substantial financial assistance and terrorism-related expertise. Relationships were first established in the late 1980s, followed by the establishment of a logistics base in the Philippines in the early 1990's. This base was believed to have been financed in large part by funds received through charities and specially established front companies, allegedly set up by Osama bin Laden's

brother-in-law, Mohammed Jamal Khalifa. Khalifa, a regional director for the Saudi-based charity International Islamic Relief Organization (IIRO), was married to a Filipina from Mindanao. Subsequent intelligence reports indicated that IIRO was used as a "pipeline" for bankrolling local militants. It is estimated that a substantial amount of IIRO funding to the region was diverted to terrorist-related activities. This included support for fundamentalist schools and centres and for recruiting promising young cadres who were then sent to centres in Pakistan and Afghanistan for further indoctrination. Al-Qa'idah is also alleged to have provided funding for training and arms.

47. External funding and support from legitimate charities and illicit funding channelled through al-Qa'idah operations and front companies continue to flow to groups linked to radical elements throughout the South-East Asia region. Regulating this funding is a very delicate and difficult issue. South-East Asia is home to about a fifth of the world's Muslim population, and many areas rely heavily on funding from local and international charities to support their religious, humanitarian, economic, social and educational activities. The population and local governments are likely to be wary of any attempts to interfere with the local work of such charities or organizations. The answer must therefore lie in more intense self-regulation supported by national and local government authorities. There will also have to be more careful oversight of sources of funding from outside the region.

48. Financial regulatory authorities have also focused greater attention on informal transfer mechanisms, such as *hawala*. Al-Qa'idah is believed to rely increasingly on such informal mechanisms to transmit funds for support and operational purposes. This is a result, in part, of increased vigilance over traditional bank transfers and the increased ability of law enforcement agencies in a number of countries to trace such transactions. It is also attributable to the absence of formal banking mechanisms in a number of areas in Pakistan and Afghanistan and remote areas of South-East Asia where al-Qa'idah and related organizations are now operating.

49. The legal status of *hawala* systems differs from country to country. Several countries treat *hawala* and similar transfer arrangements under their regular banking regulations or under a special regulatory category reserved for such transfer facilities. They are subjected to registration requirements and reporting and oversight rules. Many countries require such transfer agencies to "know their customers" and to file suspicious transaction reports. This is usually the case in North America and Europe. Some countries have established more liberal regulatory regimes for such informal transfer mechanisms. Others do not regulate *hawala* or have simply declared such systems illegal.

50. Whatever the regulatory regime, there is growing recognition that unregulated *hawala*-like operations exist in many countries. It is estimated that, at a minimum, tens of billions of dollars flow through *hawala* and other informal value transfer systems on an annual basis. Many countries have therefore stepped up their policing and enforcement of such practices. Others are now taking the first step to regulate such activities. As an example, the Group has noted the announcement by the Central Bank of the United Arab Emirates, on 5 November 2002, that all *hawala* transfers would be subject to reporting requirements. Each such transaction would have to be recorded and reported to the United Arab Emirates Government banking regulatory authority. *Hawala* operators or *hawaladars* will be required to provide the Central Bank with details regarding those sending and receiving money transfers

both originating in and coming into the country. The Group also noted the regulations that the Pakistan Government indicated it intends to implement with respect to *hawala* transfer systems.

VI. Travel ban

51. Al-Qa'idah has demonstrated its ability to organize attacks over a wide range of targets, means, modes and geographical areas, indicating the continued mobility and flexibility of the network. Elements of the networks appear able to move with relative ease within their areas of operation, e.g., Europe and South-East Asia, or between Afghanistan and Pakistan. The Group has noted the increasing cooperation and coordination between intelligence and law enforcement agencies of different States and encourages these countries to continue to reinforce these efforts.

52. One of the key tools available to restrict the movement of al-Qa'idah is the list, if used effectively by all States to implement the travel ban. Nevertheless, some States are not including designated individuals from the list in their national stop lists. Whereas the Group appreciates that it is highly unlikely that designated individuals will try to travel using documents in their own names, if they are aware of gaps in the system they might well be encouraged to exploit them.

53. Another problem that still exists, highlighted in the Group's previous report,[11] concerns the action to be taken in the event that a designated individual is stopped either attempting to enter or transiting a State. It is the Group's opinion that individuals designated on the list must be terrorists or suspected terrorists and must be apprehended. They should then be sent to their country of origin or to the country where they have been indicted.

54. It has been suggested to the Group that, with regard to the travel ban, the list is seen by some States merely as a political gesture. In relation to al-Qa'idah and its network, this is a very dangerous premise. Despite the difficulty of imposing such a travel ban, the identification and curtailing of al-Qa'idah mobility is an essential element for combating its terrorism. Previous travel bans have been imposed on members of political regimes or particular figures, restricting their movement to a specific geographical area. The al-Qa'idah network is not a geographically defined political movement and therefore cannot be compared with regimes previously subjected to travel sanctions. In addition, al-Qa'idah has a terrorist network of global proportions, not restricted by national boundaries. If the fight against the al-Qa'idah network is to be effective, the movement of listed individuals must also be restricted, even within States. Consequently, the resolution 1390 (2002) travel ban, in its present form, is not a strong enough deterrent measure against the al-Qa'idah network.

55. The Group is aware of the problems of illegal immigrants and the flow of asylum-seekers into Europe and North America. Organized crime syndicates have established effective illegal immigration routes by which large numbers of human beings can be smuggled. This has become a very lucrative business for the criminal gangs involved.[12] Some of the border officials with whom the Group spoke indicated their concern that terrorists might resort to this method of illegal movement to slip into their territory, as highlighted in the Group's previous report.[13]

56. The Group was given a detailed briefing by officials of the Schengen Information System command centre at Strasbourg. The Schengen area was created essentially to provide freedom of movement of persons between participating States. The Schengen Information System also provides a means by which law enforcement agencies of participating States can trace indicted criminals or persons suspected of committing a crime, even though the suspects may have crossed national boundaries within the Schengen area.

57. The Schengen Information System works extremely well in its present form for its intended and agreed purpose. This was clearly demonstrated to the Group. However, it does not have the legal provisions to meet the requirements of a travel ban such as that stipulated in resolution 1390 (2002). Consequently, implementation of the resolution is and has been agreed to be the responsibility of each individual participating State under its obligations to the United Nations. However, as there are now, for the purposes of the Schengen Agreement, no borders between members of the Schengen area, it appears to the Group that the participating States are not able to comply fully with paragraph 2 (b) of resolution 1390 (2002).

VII. Arms embargo

58. Monitoring the arms embargo is still the most complex and challenging element in the tasks assigned to the Group. The Group has seen very little progress in this field. Although the Group does not have specific evidence concerning arms and explosives reaching al-Qa'idah or its associated entities, there is sufficient information to confirm that al-Qa'idah has access to weapons, ammunition and explosives. The arms embargo set out in paragraph 2 (c) of resolution 1390 (2002) is falling short.

59. Recent events have demonstrated clearly that al-Qa'idah and its associates continue to make use of substantial quantities of explosives, despite the stringent arms control regulations many States have in place. The Bali and Mombasa bombings and the *Limburg* attack are, unfortunately, perfect illustrations of this. The recent arrest of a senior al-Qa'idah member who confessed to planning two more attacks in Yemen and, according to Western intelligence sources, the global threat of more attacks to come, including attacks on shipping, show that al-Qa'idah is well armed and prepared to retake the initiative.

60. Al-Qa'idah members and their associates continue to acquire large quantities of explosives or the necessary ingredients to make them. In addition to the acquisition of materials for the Bali bombings, there are numerous examples of explosives or their components being purchased on the open or black market. For instance, in late January 2002 the Philippine police arrested Fathur Rohman al Ghozi, an Indonesian terrorist linked to al-Qa'idah, and reported the seizure of one ton of TNT, 17 M-16 rifles and 300 detonators.[14] Two months later, the Philippine police seized approximately 16 tons of nitric acid, a primary ingredient in making bombs, from a trader in Valenzuela City. In March the Philippine navy seized a cargo of 15,235 kilograms of ammonium nitrate in Zamboanga without, surprisingly, making any arrests.[15] In Malaysia, a former Malaysian army captain, Yazid Sufaat, was arrested after the Malaysian police discovered that he had ordered no less than four tons of ammonium nitrate, a common fertilizer that, when mixed with motor spirit, becomes a powerful low-cost explosive and is often used by suicide

bombers.[16] These examples are only the tip of the iceberg and are provided to demonstrate the relative ease with which terrorists are able to get access to basic explosives.

61. The international community has brought forth two conventions directed at controlling the availability, manufacture and use of explosives and the ingredients for making them: the Montreal Convention on the Marking of Plastic Explosives for the Purpose of Detection, of March 1991, and the International Convention for the Suppression of Terrorist Bombings, of December 1997.

62. The Montreal Convention requires the parties to adopt measures to prohibit the manufacture of unmarked explosives and to impose strict controls over the movement of such explosives. The Convention also requires the parties to destroy, consume, mark or render permanently ineffective all stocks of unmarked explosives within three years if not held by military or police authorities and within 15 years if held by military or police authorities.

63. Under the International Convention for the Suppression of Terrorist Bombings, parties are requested to adapt their domestic legislation to be able to prevent acts of terrorism, to prosecute or extradite perpetrators and to fully cooperate with other parties in the prevention of such acts. Furthermore, the parties shall inform the United Nations Secretary-General of offenders who have been prosecuted. This last measure, if effectively applied, could provide a further source of al-Qa'idah names for the list.

64. Taken together, these two Conventions provide an array of tools that, if effectively applied by States, could significantly reduce the availability of explosives and their use by terrorists in general and by al-Qa'idah in particular. To date, only 87 countries have ratified the 1991 Convention and only 75 the 1997 Convention. In order to restrict al-Qa'idah's access to, and use of, explosive materials and their components, all States are strongly encouraged to become parties to both Conventions.

65. Another positive step is the Container Security Initiative, introduced by the United States of America in cooperation with a number of international port transfer zones and terminals. Greater container security and inspection are crucial for controlling the transfer of arms and explosives. While the cost of introducing the necessary inspection equipment is significant, it can be amortized over time. This financial burden needs to be shared by all international trans-shipment ports.

66. Another area of concern is the apparent lack of oversight of the production and commercialization of explosives and explosive ingredients. In fact, the world appears to be so awash in explosives that terrorists find it relatively easy to obtain what they need on the black market or sometimes in a loosely regulated legal one. Improved oversight is essential to gaining a handle on this problem. Effective oversight can eliminate undesired surpluses. An example of the results achieved through effective controls of the sort envisaged by the Group was the confiscation by the United States Bureau of Alcohol, Tobacco and Firearms of 4.2 million pounds of explosives from the factory of the Slurry Explosive Corporation, following the discovery of excess production. The company was licensed to store a maximum of 90,000 pounds of explosives.[17] The Group does not wish to imply that these explosives would have been used to commit terrorist attacks, but to point out

that overproduction of explosives creates a real danger of diversion to undesired elements.

67. Members of the Group had the opportunity to visit the Islamic Republic of Iran and Pakistan and to learn first hand about the availability and movement of weaponry there. This is a particularly volatile region, in part because of the ongoing conflict in Afghanistan. It therefore merits particularly close attention.

68. There are growing indications that traffickers are smuggling light weapons out of Afghanistan into neighbouring Pakistan. These arms are widely available to members of al-Qa'idah and associated groups, some of whom are believed to be sheltered or taking shelter in the Federally Administered Tribal Areas or certain major conurbations. According to a statement attributed to the Pakistan Ministry of Defence, 475 hauls of weapons, including more than 2,000 rockets, 4,000 land mines and 5 million bullets have been seized in 2002.[18]

69. The Pakistan authorities informed the Group that they consider their country a victim of the successive Afghanistan wars. Weapons from Afghanistan are regularly streaming into Pakistan across the porous 2,538-kilometre border. They do not believe that weapons are transiting their country to Afghanistan. Pakistani authorities noted that there are more than enough arms and ammunition inside Afghanistan, which had been supplied in support of the war against the Soviet occupation, to sustain guerrilla forces for years to come.

70. During discussions on this subject, the Group highlighted the fact that many of the weapons and much of the ammunition left by the Soviets had been kept in such poor conditions that the coalition forces had no choice but to destroy the caches in situ, because the items were unstable or to prevent them from falling into the wrong hands. Reports emanating from the United States Department of Defense indicate that some quantities of new weapons and ammunition had been discovered inside Afghanistan. Responding to these reports, the Pakistan authorities told the Group that, if so, only small quantities of weapons and ammunition would be involved, and they would have come from other States bordering Afghanistan, not from Pakistan. The Group has not yet had the opportunity to corroborate these allegations with any representative of the coalition forces.

71. In view of these weapons flows, the Group asked the Pakistan Government to furnish details of specific cases in which arms flowing into Pakistan had been seized. This included the recent seizure near Zhob, in Baluchistan province, by the Baluchistan Levies, of a vehicle loaded with a large quantity of ammunition and explosive material, including 100 kilograms of TNT, 178 82-millimetre mortar rounds, 25 75-millimetre recoilless rifle projectiles and 55 82-millimetre (mortar) fuses.[19] The ongoing investigations have yet to yield a response to this request. Similarly, the anti-smuggling unit of the customs service at Quetta seized a large quantity of arms and ammunition from Mazari Pass, close to the border between Pakistan and south-west Afghanistan. The unit successfully recovered four rocket launchers, one light machine gun, one 7.62 rifle and 400 rounds of 12.7-millimetre anti-aircraft ammunition. These items had been dumped in a hilly area of Mazari Pass outside a small border village. The customs authorities declared that some smugglers had dumped arms and ammunition near the Pakistan/Afghanistan border, at Nok-Kundi, for smuggling into the interior for terrorist activities.[20] It is not clear for whom these weapons were intended. It is proving quite difficult for the Pakistani authorities to control the movement of weapons into the Tribal Areas.

72. According to the *Small Arms Survey 2002*, there are some 2 million weapons in Pakistan in the hands of legally licensed owners. Officials of the Pakistan Ministry of Interior believe that there are approximately 18 million illegally held weapons. Gun ownership is, historically, more common in the border regions of Baluchistan and the North-West Frontier Province than in the rest of the country; these are places where "firearms owners typically have more than one gun, often as many as half a dozen".[21] Consequently, one cannot overlook the possibility of some of these guns falling into the hands of the remnants of the Taliban or members of al-Qa'idah.

73. Similarly, there are small towns and villages along the Afghan/Pakistani border, such as Darra Adamkhel, which are renowned for their illicit weapons production. While the production of these arms is looked upon by some as a local craft and the weapons produced are considered to be of low quality, they still provide a low-cost option and enhance the accessibility of weapons in the region.

74. The Tribal Areas along the Pakistan border with Afghanistan have a history of resisting external regulation. There the international community is facing a cultural and ancestral tradition. It is part of the way of life of the inhabitants of this region to be armed, and the smuggling routes are not on any maps near any roads. They are part of a cultural heritage transmitted through generations. This porous border is conducive to smuggling.

75. As Jayantha Dhanapala, Under-Secretary-General for Disarmament Affairs, stated to the Security Council on 11 October 2002, "there is growing evidence of close links between illicit small arms and light weapons and both terrorism and drug trafficking".[22] In this regard, the Group is concerned that the proceeds, based on an average price of $350 per kilogram and an opium harvest estimated at 3,000 tons, could amount to about $1 billion. The Office on Drugs and Crime report[23] has estimated that about 68 per cent of the projected harvest will come from areas that the Group understands are traditionally sympathetic to the Taliban. Consequently, the opportunities for the Taliban and al-Qa'idah to benefit financially and for there to be funds available for the purchase of more weaponry should be a major concern. Undoubtedly, many warlords and other tribal leaders benefit from this trade, as might al-Qa'idah.

76. While in the Islamic Republic of Iran, the Group visited the country's borders with Afghanistan and with Pakistan, travelling along approximately 150 kilometres of the actual border patrol routes with units of the Iranian Border Guard Service. Iran has gone to considerable lengths to control movement across its border, particularly that section of its border with Afghanistan, in order to combat drug trafficking. The country has suffered many casualties in this endeavour. Despite the fact that the drug smugglers are well armed and well equipped, the Iranian authorities have as yet encountered little evidence of weapons being funnelled into Afghanistan through their country.

77. During clashes with the drug smugglers, Iranian border guards have seized small arms and light support weapons, ranging from the basic AK-47 assault rifle to automatic grenade launchers, heavy machine guns (14.5-millimetre), and shoulder-fired anti-tank and anti-aircraft missile systems. They have also seized modern Japanese radio transceivers and United States-manufactured night vision equipment. Bearing in mind the areas inside Afghanistan from which the majority of the

traffickers are emanating, the likelihood of elements of the Taliban and al-Qa'idah once again having easy access to weapons and drug proceeds cannot be ignored.

78. Recent reports from intelligence services indicate that al-Qa'idah is regrouping and setting up simple training facilities inside Afghanistan, close to the Pakistan border. This would suggest that al-Qa'idah will probably require additional arms and ammunition.

79. The Group's report of 15 January 2002 pursuant to resolution 1363 (2001) (S/2001/65, annex), included a recommendation that the Security Council consider imposing an arms embargo on the whole of Afghanistan, with the exception of the legitimate government forces. Following the Group's visits to Iran and Pakistan, it is more convinced than ever of the need for such a measure. This important step would reinforce the efforts being undertaken by the Iranian and Pakistani Governments to control the flow of weapons across their borders with Afghanistan.

80. The Group also looked into the flow of arms to Jemaah Islamiyah and other al-Qa'idah-related groups in South-East Asia. This included being briefed by the relevant authorities and experts in the field. They indicated that, contrary to the information in the Group's last report, which stated that weapons were flowing to these groups from the Golden Triangle, the information at their disposal indicated that weapons were being provided locally. Weapons were being obtained from the local black market, from the looting of military dumps and from corrupted servicemen. The Group is continuing to look into this matter.

81. Regarding weapons of mass destructions, the Group remains highly preoccupied by the potential for al-Qa'idah to manufacture some kind of "dirty" bomb. In that respect, the attention of the Group has been drawn to the recent seizure by the Tanzanian police of 110 kilograms of suspected raw uranium, a highly radioactive and dangerous material. In recent months, the Tanzanian authorities have seized five canisters of suspected uranium. This material is usually smuggled from the neighbouring countries through the Tanzanian border towns of Mbeya in the south, Kigoma in the west and Rukwa in the south-west.

82. The Group wishes to emphasize that so far no connection has been identified between the events in the United Republic of Tanzania and al-Qa'idah. However, the possibility cannot be excluded of these illegal movements of raw uranium reaching al-Qa'idah or its associates in East Africa. The Group is following this line of inquiry with the Tanzanian authorities and maintaining contact on this matter with the International Atomic Energy Agency Department of Safeguards.

83. The Group is cognizant of a number of press and other reports that al-Qa'idah is interested in acquiring chemical weapons. Currently the Group has no further information to contribute, but hopes to be able to devote some of its time in the future to this issue.

84. The Group has noted with satisfaction that, following its previous reports, certain States have introduced modifications in their legislation requiring the registration of arms brokers. Other measures to control brokering activities, including brokering by nationals outside the jurisdiction, have also been put in place by certain States. The Group hopes that additional States will also adopt such measures.

85. The Group also notes with keen interest the 12 recommendations incorporated in the report of the Secretary-General on small arms,[24] which are fully consistent with and support the recommendations presented in the Group's previous reports. In this regard, the Group believes that consideration should also be given to the application of "know your customer" rules similar to those now being applied by international financial institutions. Weapons traders should be required to exercise due diligence to identify and confirm the bona fides of their clients. Suspicious transactions should be reported immediately to the appropriate authorities.

VIII. Conclusions

86. After a year of monitoring the implementation by States of resolution 1390 (2002) and discussing with Governments the measures imposed under the resolution, the Group has come to the following conclusions:

87. The effective implementation by a number of States of some of the measures in resolution 1390 (2002) has had a positive impact in terms of reducing the operational capability of al-Qa'idah.

88. Al-Qa'idah appears to have suffered some significant disruption to its infrastructure, but due to its decentralized, loose and relatively simple command and control system and inherent flexibility, it continues to pose a substantial threat, globally, to peace and security.

89. The United Nations consolidated list suffers from a number of inadequacies, which require rectification in order for States to comply more effectively. Similarly, States as a whole need to be more proactive in submitting names and supporting information to the Committee established pursuant to resolution 1267 (1999).

90. The measures to freeze financial and economic assets have had a positive impact in terms of disrupting al-Qa'idah's financial support, forcing al-Qa'idah to find alternative methods of funding and move its finances. Consequently, it has become more difficult to trace and identify the network's assets. Greater reliance is being placed on intelligence-gathering and the sharing of information, and this is beginning to produce positive results.

91. The travel ban under resolution 1390 (2002) is based predominantly on previously established United Nations travel bans. It is not configured to counter a global terrorist network such as al-Qa'idah.

92. The arms embargo, when initiated, had a geographical visibility. The global dispersion of the al-Qa'idah network has significantly changed the scale of the arms embargo that has to be implemented, to such an extent that the stipulated measures now fall short of the target.

93. The resolution has provided a good foundation for international cooperation in the fight against al-Qa'idah, and significant progress has been achieved. Nevertheless, the implementation of the measures contained in the resolution does not appear to have been sufficiently effective. Countering the al-Qa'idah network effectively will demand a more proactive approach to the formulation and implementation of the resolution by all Member States.

IX. Recommendations

94. The recommendations that follow are in addition to those already made in the Monitoring Group's two previous reports.

United Nations consolidated list

95. The Group recommends that the list be issued in its revised format without further delay.

96. Member States should submit to the Committee established pursuant to resolution 1267 (1999) the names of all individuals and entities associated with al-Qa'idah whose identities have been released publicly.

97. All individuals known to have attended al-Qa'idah training camps in Afghanistan, or any other locations associated with the al-Qa'idah network, must be considered suspected terrorists and their names submitted for designation on the list.

98. Updated versions of the list must be communicated to all Member States immediately and simultaneously, by a recognized legal means.

Freezing of financial and economic assets

99. Assets attributable to individuals and entities on the list should not be released without prior approval from the Committee, in accordance with the guidelines issued by the Committee.

100. Member States should be encouraged to introduce mechanisms to enable electronic transfers, particularly international ones, to be effectively monitored for suspicious transactions. Attention should be given to FATF special recommendation VII and the new interpretive note being circulated for adoption.

101. Member States should establish appropriate regulatory authorities in order to ensure the effective oversight of charities and non-governmental organizations.

102. Member States should establish the appropriate regulatory authorities to monitor the activities of informal transfer mechanisms such as *hawala*.

Travel ban

103. The Group suggests that the Committee consider all those individuals designated on the list al-Qa'idah terrorists or suspected al-Qa'idah terrorists, in order that Member States can detain, prosecute or extradite them to another country that has issued a warrant or return them for detention in their country of origin.

104. Member States should ensure that they put in place the appropriate measures to fully comply with paragraph 2 (b) of resolution 1390 (2002).

Arms embargo

105. All Member States should be encouraged to become party to the 1991 Montreal Convention and the 1997 International Convention for the Suppression of Terrorist Bombings.

106. Member States should be encouraged to participate in the Container Security Initiative.

107. Member States should be encouraged to adopt, where appropriate, the 12 recommendations contained in the report of the Secretary-General on small arms dated 20 September 2002.[24]

Notes

[1] To date the Committee has received 11 replies to its initial request dated 23 September 2002.

[2] There are more than 40 such banking centres where modern telecommunications allow banks to operate from offshore branch locations with little or no oversight.

[3] See note on offshore financial centres prepared by the Monetary and Exchange Department of the International Monetary Fund, 31 October 2002.

[4] Russia, Dominica, Niue and the Marshall Islands were removed from the FATF non-cooperating list on 11 October 2002 on indication that significant reforms to their anti-money-laundering systems were under way (see FATF press release dated 11 October 2002).

[5] "In the Middle East, for example, the Gulf Cooperation Council, which comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, has agreed to be bound by the Financial Action Task Force (FATF) recommendations on money-laundering and terrorist financing. Yet, over the past year, few of these countries have enforced these measures .... In Africa, Central Asia and the Caucasus, the problem is due to an extreme lack of financial oversight procedures, laws and institutions, rather than political resistance. Banks in these regions generally operate on a largely informal basis with a staff ill-equipped to identify money-laundering or other suspicious transactions" (Center for Defense Information Primer: Terrorist Finances, 25 October 2002).

[6] Reports have circulated indicating that about $127,000 was routed in this fashion to fund recent al-Qa'idah operations in Yemen (al-Jazeerah Arabic News, 11 November 2002).

[7] One such example is the Afghan Support Committee, which was established by al-Qa'idah to funnel money directly to al-Qa'idah operations. Al-Qa'idah is also believed to have used such front organizations in Bosnia and Herzegovina to re-route funds to the al-Qa'idah organization or associated groups.

[8] A partial list of the charities and non-governmental organizations whose assets have been blocked for terrorism funding or related activities includes the Afghan Support Committee, the Revival of Islamic Heritage Society, the Al-Haramain Islamic Foundation (Bosnia and Herzegovina and Somalia branches), the Makhtab al-Khidamat, a clearing house for Islamic charities financed directly by Osama bin Laden, the Al Rashid Trust, the Wafa Humanitarian Organization, the Rabita trust, the Global Relief Foundation, the Benevolence International Foundation, the Aid Organization of the Ulema, Jam'yah Ta'awun al-Islamia and the Somali International Relief Organization.

[9] There are 241 charitable societies in Saudi Arabia with a combined revenue of 1.2 billion riyals and expenditures of about 970 million riyals. Last year Saudi Arabia participated with the United States of America in designating the Somali and Bosnian branch offices of one of its principal charitable organizations, Al-Haramain Islamic Foundation, which had been found to have been engaged in activities in support of al-Qa'idah. The Saudi Government also acted jointly with the United States in September 2002 to designate a Saudi national, Wa'el Hamza Julaidan, who had served as a Director-General of another Saudi charity, the Rabita Trust.

[10] At least one credible source has alleged that a donor provided some $74,000 to purchase explosives for use by extremist groups in the region. Funds for the purchase of the van and other items allegedly came in cash and electronic transfers.

[11] See S/2002/1050, enclosure, para. 77.

[12] *Jane's Intelligence Review*, 1 December 2002, "Immigration criminals may aid terrorists": "The larger gangs are making up to GBP 1m [$1.6 million] a week through smuggling people into the United Kingdom, the Unit [the United Kingdom organized immigration crime unit] says".

[13] "There are also reports that al-Qa'idah members have sought to enter Europe using well-established illegal immigration routes, including those extending from Central Asia, as well as from Turkey and the Balkans into the rest of Europe" (S/2002/1050, enclosure, para. 72).

[14] *The Manila Times*, 18 March 2002, "PNP inventory unearths 2-ton missing explosives".

[15] Ibid., 23 March 2002, "Cops seize big shipment of explosives ingredients from Valenzuela trader".

[16] *The Bulletin*, 13 February 2002, "SE Asia, the Devil's playground".

[17] *The Joplin Globe*, 3 August 2002, "Explosives plant prepares to resume production — federal criminal probe continues, officials say".

[18] Institute for War and Peace Reporting, Afghan Recovery Report, 1 November 2002, "Taliban buying up smuggled guns".

[19] *The News*, 30 October 2002.

[20] Ibid., "Quetta Customs seize arms".

[21] *Small Arms Survey 2002* (Oxford University Press, New York), p. 100.

[22] See S/PV.4623.

[23] Afghanistan Opium Survey 2002, October 2002.

[24] S/2002/1053.

Annex I

Chronology of al-Qa'idah-related terrorist incidents since 9 August 2002

2 October 2002	Suspected Abu Sayyaf guerrillas detonate a nail-laden bomb in an open-air market in Zamboanga, Philippines. Persons killed: 3
6 October 2002	Attack on the French-registered supertanker *Limburg* off the coast of Yemen. Persons killed: 1
8 October 2002	Two armed men open fire on United States Marines training on Kuwait's Failaka island. Persons killed: 1
12 October 2002	A car bomb explodes outside a crowded nightclub in Bali, Indonesia. The powerful explosion causes the nightclub to go up in flames. Persons killed: 191
24 October 2002	A heavily armed group of about 40 storms a crowded theatre in Moscow and takes more than 700 hostages. The group demands an end to the war in Chechnya. In the early morning hours of 26 October Russian special forces enter the theatre and kill most of the hostage-takers. As a result of the use of a gas a large number of hostages die as well. Persons killed: 129 hostages 41 hostage-takers
28 November 2002	Missiles are fired at a commercial airliner taking off from Mombasa airport in Kenya. The missiles narrowly miss the aircraft, which lands safely in Tel Aviv, Israel. Persons killed: none
28 November 2002	A car bombing is carried out against a hotel in Mombasa, Kenya. Persons killed: 13 people in the hotel 3 suicide bombers

Annex II

Individuals, publicly identified, allegedly linked with al-Qa'idah

1	Ab Wahab bin Ahmad	46	Kamel Daudi
2	Abd al-Aziz al-Jamal	47	Kamel Lakhram
3	Abd al-Rahim al-Nashiri	48	Khalid Shaikh Mohammed
4	Abdallah M'safer ali Al Ghamdi	49	Mahfuh bin Haji Halimi
5	Abdel Tobichi	50	Mahmoud bin Ahmad Assegaf
6	Abdelghani Mzoudi	51	Midhat Mursi
7	Abdul Majid s/o Niaz Mohamed	52	Mohamad Anaur bin Margono
8	Abdulbasit Usman	53	Mohamed Boualem Khnouni
9	Abou Doha aka Amar Makhlilif	54	Mohamed Ellias s/o Mohd.Khan
10	Abu Bakr Basyr	55	Mohamed Haider Zammar
11	Abu Basir al- Yemeni	56	Mohamed Khalim bin Jaffar
12	Abu Mohammed Al-Masri	57	Mohamed Mansur Jabrah
13	Abu Musab Zarqawi	58	Mohamed Nazir bin Mohamed Uthman
14	Abu Zubair al Haili	59	Mohamed Noor bin Sulaimi
15	Adham A. Hassoun	60	Mohammaed Jamil Derbah
16	Adnan bin Musa	61	Mohammed Asraf
17	Agus Dwikarna	62	Mohammed Bensakhira
18	Ahmed Brahim	63	Mohammed Galeb Zouayadi
19	Amrozi	64	Mohammed Hisham bin Hairi
20	Andrew Gerard a.k.a. Ali Ridhaa bin Abdullah	65	Mohammed Jamal Khalifa
21	Azman bin Jalani	66	Mohd Jauhari bin Abdullah
22	Eddin Barakat Yarkas	67	Mohsen al-Fadhil
23	Faiz Abdullah Ashiblie	68	Momar Timbao Esmael
24	Faiz bin Abu Bakar Bafana	69	Muhammad Saad Iqwal Madni
25	Fathi Abu Bakar Bafana	70	Muhammed Abid Afridi
26	Feroz Abbasi	71	Mukhlas a.k.a. Ali Gufron
27	Ghulam Mustafa Rama	72	Mullah Krekar
28	Gulbuddin Hekmatiyar	73	Munain bin Turru
29	Habibullah s/o Hameed	74	Nabil al-Marabh
30	Haji Ibrahim b Haji Maidin	75	Naharudin bin Sabtu
31	Hakim Mokhfi	76	Nicolas Belloni
32	Halim bin Hussain	77	Nizar Trablesi
33	Hamadi Bouyahia	78	Nordin bin Parman
34	Hashim bin Abas	79	Omar Al-Faruq
35	Hassan Al-Cheguer	80	Omar Shishani
36	Hilal Aouad Alassiri	81	Othman bin Mohamed
37	Husin bin Ab Aziz	82	Rabah Kadri aka Toufiq
38	Ilyas Ali	83	Redouane Daoud
39	Imam Samudra	84	Richard Reed
40	Ja'afar bin Mistooki	85	Riduan Isamuddin (hambali)
41	Jamal Beghal	86	Saad Bin Laden

42	James Ujaama	87	Said bin Ismail
43	Jerome Courtailler	88	Said Kazdari
44	Jose Padilla	89	Sajahan bin Abdul Rahman
45	Kamal Hadid Chaar	90	Sakim bin Marwan
91	Sanin bin Raffin	98	Yachine Akhnouche
92	Simon bin Sabtu	99	Yasser Al-Siri
93	Slimane Khalfaoui	100	Yazid Sufaat
94	Suleiman Abu Ghaith	101	Zacarias Moussaoui
95	Syed Ibrahim	102	Zaid Khayr
96	Syed Mustajab	103	Zuher Hilal Mohamed Al Tbaiti
97	Tawfiq Attash Khallad	104	Zulkifli bin Mohamed Jaffar

Annex III

Guidelines of the Security Council Committee established pursuant to resolution 1267 (1999) for the conduct of its work, adopted on 7 November 2002

1. The 1267 Committee

The Committee of the Security Council established by paragraph 6 of Security Council resolution 1267 (1999) of 15 October 1999 and whose functions were modified by resolution 1390 (2002) of 16 January 2002, will be known as the 1267 Committee.

The Committee is a subsidiary organ of the Security Council.

2. Composition of the Committee

(a) The Committee will consist of all members of the Security Council.

(b) The Chairman of the Committee will be appointed by the Security Council. The Chairman of the Committee will be assisted by two Vice-Chairmen, who will be appointed by the Security Council.

(c) The Chairman will chair meetings of the Committee. When he is unable to chair a meeting, he will nominate one of the Vice-Chairmen to act on his behalf.

(d) The secretariat of the Committee will be provided by the Secretariat of the United Nations.

3. Meetings of the Committee

(a) Meetings of the Committee will be convened at any time the Chairman deems necessary, or at the request of a member of the Committee. Two working days' notice will be given for any meeting of the Committee, although shorter notice may be given in urgent situations.

(b) The Committee will meet in closed sessions, unless it decides otherwise. The Committee may invite any Member of the United Nations to participate in the discussion of any question brought before the Committee in which interests of that Member are specifically affected. The Committee may invite members of the Secretariat or other persons whom it considers competent for the purpose to supply it with appropriate expertise or information or to give it other assistance in examining matters within its competence.

(c) The Committee may invite the members of the Monitoring Group established pursuant to resolution 1363 (2001) and whose functions were modified by resolution 1390 (2002) to attend meetings as appropriate.

4. Mandate of the Committee

The mandate of the Committee will be, on the basis of the measures imposed by paragraph 4 (b) of resolution 1267 (1999) and paragraph 8 (c) of resolution 1333 (2000), as extended by paragraph 1 of resolution 1390 (2002) and paragraph 2 of resolution 1390 (2002), to undertake the following tasks and to report on its work to the Council with its observations and recommendations:

(a) To seek from all States further information regarding the actions taken by them with a view to effectively implementing the measures referred to above, and thereafter to request from them whatever further information the Committee may consider necessary;

(b) To update regularly the list referred to in paragraph 2 of resolution 1390 (2002), including through the designation of individuals, groups, undertakings and entities that are subject to the measures referred to above, on the basis of relevant information provided by Member States and regional organizations;

(c) To cooperate with other relevant Security Council sanctions Committees and with the Committee established pursuant to paragraph 6 of resolution 1373 (2001) of 28 September 2001;

(d) To examine the reports submitted by Member States pursuant to paragraph 6 of resolution 1390 (2002) and the reports presented by the Monitoring Group pursuant to paragraph 10 of resolution 1390 (2002);

(e) To consider information brought to its attention by States concerning violations of the measures referred to above and to recommend appropriate measures in response thereto;

(f) To make periodic reports to the Council on information submitted to the Committee regarding the implementation of resolution 1390 (2002), including regarding violations of the measures referred to above;

(g) To make information it considers relevant, including the list referred to in paragraph 2 of resolution 1390 (2002), publicly available through the appropriate media;

(h) To amend expeditiously such guidelines and criteria as may be necessary to facilitate the implementation of the measures referred to above;

(i) To consider requests for exemptions from the measures imposed by paragraph 2 (b) of Security Council resolution 1390 (2002) in accordance with that paragraph.

5. List of individuals and entities referred to in paragraph 2 of resolution 1390 (2002)

(a) The Committee will update regularly the list referred to in paragraph 2 of resolution 1390 (2002) when it receives relevant information;

(b) Proposed additions to the list should also include, to the extent possible, a narrative description of the information that forms the basis or justification for taking action pursuant to resolution 1390 (2002) and relevant provisions of resolutions 1267 (1999) and 1333 (2000);

(c) Proposed additions to the list should include, to the extent possible, relevant and specific information to facilitate their identification by competent authorities:

- For individuals: name, date of birth, place of birth, nationality, aliases, residence, passport or travel document number;

– For groups, undertakings or entities: name, acronyms, address, headquarters, subsidiaries, affiliates, fronts, nature of business or activity, leadership;

(d) The Committee will consider expeditiously requests to update the list to be provided through Member States or regional organizations, on the basis of relevant information received by the Committee;

(e) Any modification to the list will be communicated to the Member States immediately. The updated list will be made promptly available on the web pages of the Committee.

6. De-listing

(a) Without prejudice to available procedures, petitioners (individuals, groups, undertakings, and/or entities on the 1267 Committee's consolidated list) may petition the Government of residence and/or citizenship to request review of the case. In this regard, the petitioner should provide justification for the de-listing request, offer relevant information and request support for de-listing;

(b) The Government to which a petition is submitted (the petitioned Government) should review all relevant information and then approach bilaterally the Government(s) originally proposing designation (the designating Government(s)) to seek additional information and to hold consultations on the de-listing request;

(c) The original designating Government(s) may also request additional information from the petitioner's country of citizenship or residency. The petitioned and the designating Government(s) may, as appropriate, consult with the Chairman of the Committee during the course of any such bilateral consultations;

(d) If, after reviewing any additional information, the petitioned Government wishes to pursue a de-listing request, it should seek to persuade the designating Government(s) to submit jointly or separately a request for de-listing to the Committee. The petitioned Government may, without an accompanying request from the original designating Government(s), submit a request for de-listing to the Committee, pursuant to the no-objection procedure;

(e) The Committee will reach decisions by consensus of its members. If consensus cannot be reached on a particular issue, the Chairman will undertake such further consultations as may facilitate agreement. If, after these consultations, consensus still cannot be reached, the matter may be submitted to the Security Council. Given the specific nature of the information, the Chairman may encourage bilateral exchanges between interested Member States in order to clarify the issue prior to a decision.

7. Reports submitted by the Member States and information supplied to the Committee

(a) The Committee will examine the reports submitted by Member States pursuant to paragraph 6 of resolution 1390 (2002). The Committee may request further information that it considers necessary;

(b) The Committee will examine the reports presented by the Monitoring Group pursuant to paragraph 10 of resolution 1390 (2002);

(c) The Committee will consider information relevant to its work, including possible violations, provided from different sources through Member States;

(d) The Secretariat will forward to the Committee any information obtained from any published sources, including radio and television broadcasts, relating to the implementation of resolution 1390 (2002) and relevant parts of resolutions 1267 (1999) and 1333 (2000), and particularly violations or alleged violations of the sanctions established by these resolutions;

(e) The information received by the Committee will be kept confidential if the provider so requests or if the Committee so decides;

(f) With a view to assisting Governments in their endeavour to implement the measures referred to in paragraph 4 above, the Committee may decide to supply to the Governments concerned information forwarded to it relating to alleged violations and ask any such Governments to report to the Committee subsequently on any investigations undertaken.

8. Decision-making

(a) The Committee will reach decisions by consensus of its members. If consensus cannot be reached on a particular issue, the Chairman should undertake such further consultations as may facilitate agreement. If after these consultations, consensus still cannot be reached, the matter may be submitted to the Security Council. Given the specific nature of the information, the Chairman may encourage bilateral exchanges between interested Member States in order to clarify the issue prior to a decision;

(b) Where the Committee agrees, decisions may be taken by a written procedure. In such cases the Chairman will circulate to all members of the Committee the proposed decision of the Committee, and will request members of the Committee to indicate any objection they may have to the proposed decision within 2 working days (or in urgent situations, such shorter period as the Chairman shall determine). If no objection is received within such a period, the decision will be deemed adopted.

9. Reports to the Security Council and information to Member States

(a) The Committee will submit regular reports, including recommendations as necessary, to the Security Council in relation to the implementation of resolution 1390 (2002), either orally or in writing, as requested by the Security Council, or where the Committee deems it necessary to submit a report to the Security Council;

(b) In order to enhance and publicize the work of the Committee, the Chairman will brief interested Member States and the press following formal meetings of the Committee, unless the Committee decides otherwise. In addition, the Chairman will be authorized, after prior consultations with and upon approval of the Committee, to hold press conferences or issue press releases on any aspect of the Committee's work.

Annex IV

Documents available on the Internet

THE WOLFSBERG ANTI-MONEY LAUNDERING PRINCIPLES FOR CORRESPONDENT BANKING
The Wolfsberg Group of Banks
5 November 2002
http://www.wolfsberg-principles.com/correspondent_banking_principles.pdf

GUIDANCE NOTES FOR THE SPECIAL RECOMMENDATIONS ON TERRORIST FINANCING AND THE SELF-ASSESSMENT QUESTIONNAIRE
Financial Action Task Force on Money Laundering
27 March 2002
http://www1.oecd.org/fatf/pdf/TF-SAGUIDE20020327_en.pdf

GUIDANCE FOR FINANCIAL INSTITUTIONS IN DETECTING TERRORIST FINANCING
Financial Action Task Force on Money Laundering
24 April 2002
http://www1.oecd.org/fatf/pdf/GuidFITF01_en.pdf

COMBATING THE ABUSE OF NON-PROFIT ORGANIZATIONS INTERNATIONAL BEST PRACTICES
Financial Action Task Force on Money Laundering
11 October 2002
http://www1.oecd.org/fatf/pdf/SR8-NPO_en.pdf

PROPOSAL FOR AN INTERPRETATIVE NOTE TO FATF SPECIAL RECOMMENDATION VII: WIRE TRANSFERS
Financial Action Task Force on Money Laundering
11 October 2002
http://www1.oecd.org/fatf/pdf/INSR7-Consult_en.pdf